



Popular Annual Financial Report



**A FINANCIAL SUMMARY FOR ITS CITIZENS
Fiscal Year 2012**

**Prepared by the
Kitsap County Auditor – Financial Services Division**

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A Message From Kitsap County Auditor Walter E. Washington

To the Citizens of Kitsap County, Washington:

I know first hand from my experience in the world of finance that financial documents can be difficult to understand. That is why I am proud to present our first ever Popular Annual Financial Report (PAFR).

The PAFR is a simplified financial report designed to enhance your understanding of Kitsap's finances. Within this report you will find information about the county's organizational structure, revenues, expenses and much more. I hope you find this report straightforward and easy to follow.

All of the information is derived from Kitsap's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending December 31, 2012. The CAFR, which was prepared by the county Auditor's Office, is presented in accordance with Generally Accepted Accounting Principles (GAAP). The State Auditor's Office audited the CAFR awarding it an 'unmodified opinion' – the best review possible.

For the past 15 consecutive years Kitsap County has received the Certificate of Excellence in Financial Reporting from the Government Finance Officers Association for its CAFR. This Certificate is among the highest forms of recognition in governmental accounting and financial reporting in North America.

Should you have any comments or suggestions about this report, please do not hesitate to contact me.

I am honored and humbled that the citizens of Kitsap County have entrusted me with the duties and responsibilities of Auditor of the County.

Sincerely,



Walter E. Washington



About This Report

Although challenging, county leadership has focused on maintaining balanced budgets and living within our means.

We are pleased to report that Kitsap County has successfully rebuilt fund balances to recommended levels, putting the county in a better position going forward. We accomplished this while maintaining our commitment to customer service. County government continues to closely examine operations looking for ways to achieve further savings by implementing innovative efficiencies.

Financial information in this report has been summarized from Kitsap County's Comprehensive Annual Financial Report (CAFR). This report includes an overview of Kitsap County; budget comparisons for fiscal years 2011 and 2012; statement of net position (assets and liabilities); statement of activities (income statement); revenue and expenditures; business type (user financed); investment policy; assets; liabilities; and property tax comparisons.

Throughout this report you will find explanations in the right column to help you better understand the information being presented.

This report is unaudited and does not include many important disclosures and other financial information that are required by Generally Accepted Accounting Principles (GAAP), including the discretely presented component unit (Public Facilities District). As this report is only a summary of the County's financial information, users who desire additional information should refer to the County's audited CAFR.



Profile of Kitsap County

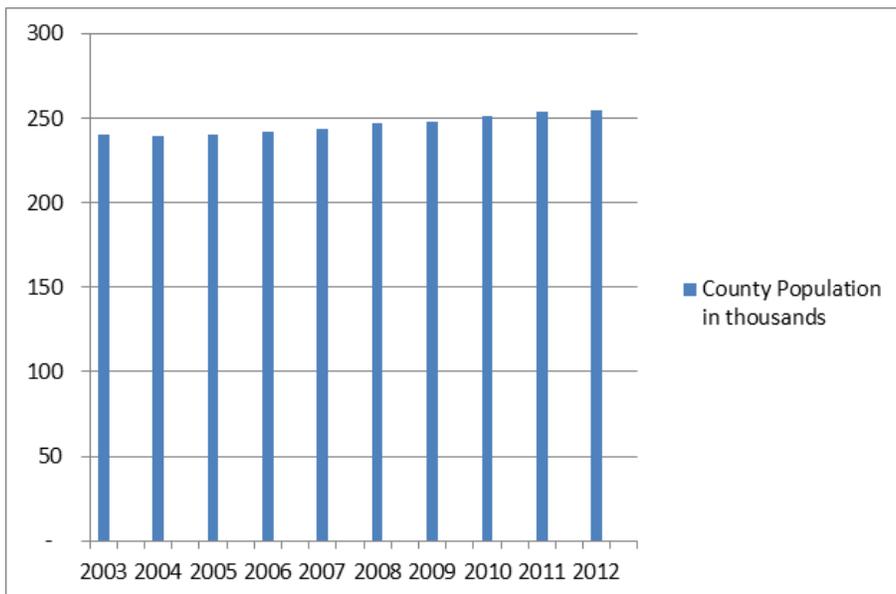
Kitsap County occupies a unique portion of the State of Washington, directly between the urban areas of Seattle and Tacoma and the wilderness of the Olympic Mountains. It is bounded by the Hood Canal on the west, Puget Sound on the east, and Mason and Pierce Counties to the south.

The topography is mostly low, flat-topped rolling hills separated by valleys and bays, with altitudes from sea level to 600 feet above, except for Green and Gold mountains, which rise to 1,761 feet above sea level. The climate is moderate, with mild, wet winters and cool, dry summers. Average annual precipitation ranges from 26 inches in the north to nearly 80 inches in the mountains.

Kitsap County was incorporated in 1857. Locally elected officials include the County Assessor, Auditor, Clerk, Prosecuting Attorney, Sheriff, Treasurer, eight Superior Court Judges, four District Court Judges, and a three member Board of County Commissioners. Policy-making and legislative authority are vested in the governing Board of County Commissioners, which are all elected at-large on a partisan basis for four-year terms and the chair is elected by the majority vote of the Board members. The Board will appoint a Chief Financial Officer. The Chief Financial Officer serves the Board by overseeing its departments and providing leadership for the general administration of the County.



Population



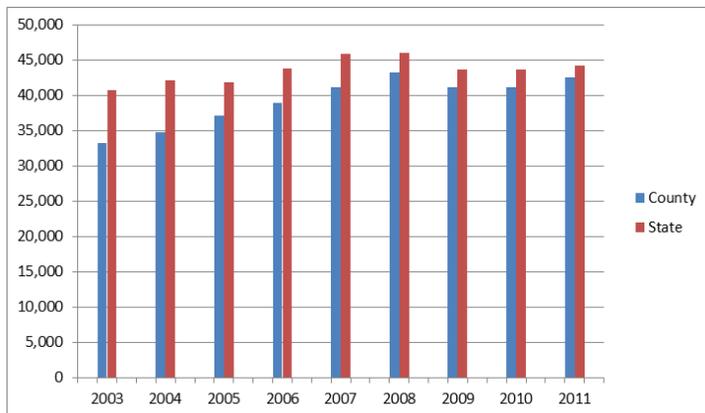
Profile of Kitsap County (continued)

Kitsap County provides a full range of services directed by statute, including public safety; construction and maintenance of streets, and other infrastructure; judicial administration; planning and development; parks and recreation; health and social services; sewer services; representative government and ensuring the integrity of the people’s historic birth, death, marriage, real estate and election records; and general administrative services.

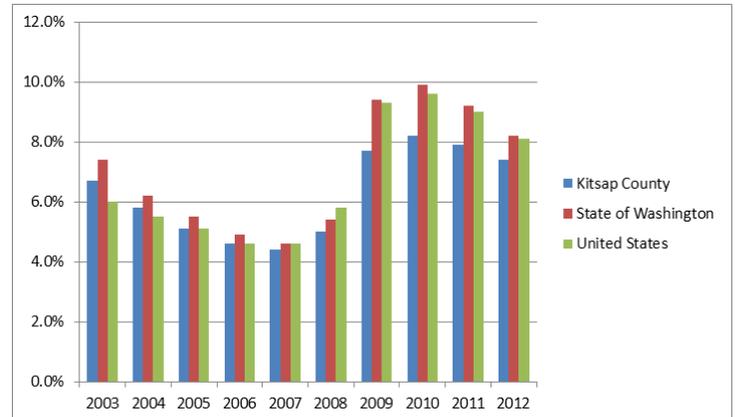
Kitsap County has the seventh largest population of Washington State’s 39 counties. In 2011, the County’s population rose to an estimated 253,900. Although Kitsap County appears to be rural due to the vistas of water, mountains and trees, it actually has the third highest population density in the state of Washington, only surpassed by Clark and King Counties.

Total employment was at 121,390 in 2011 while unemployment was at 7.6%. The strong work ethic of a labor pool associated with military employment continues to attract attention from national employers. With the addition of well-qualified students from Olympic College and private training institutes, the County remains a desirable location for prospective employers.

Per Capita Personal Income



Unemployment Rates



Governmental Functions

Kitsap County provides a variety of essential services to its citizens, including:

General Government includes services for the general operations of the County such as Commissioners, Assessor's, Auditor's, Prosecutor's and Treasurer's office operations as well as Budget, Facilities, Personnel and other general operations.

Judicial Services includes operations of the Clerk's Office as well as District, Juvenile and Superior Court operations.

Public Safety provides law enforcement, corrections, detention, emergency services, juvenile services, coroner operations and boating safety.

Physical Environment includes a portion of the Department of Community Development operations as well as Noxious Weed Control.

Transportation includes countywide roads and infrastructure. Transportation services also provide construction and maintenance of roads and streets to ensure safety and proper movement of traffic.

Health & Human Services includes services for care, treatment, and control of human illness, injury, or persons with disabilities as well as employment training. These services are mental health, development disabilities, substance abuse, area agency on aging, employment training, recovery center operations and veteran's relief.

Economic Environment includes the remainder of the Department of Community Development, HOME Entitlement and Community Development Block Grants, and Kitsap Regional Coordinating Council.

Culture and Recreation services are provided through Parks and Recreation programs including operations of the annual fair, all parks facilities, and parks capital projects.



Elected Officials of Kitsap County

Robert Gelder, Charlotte Garrido and Josh Brown, County Commissioners

(listed from left to right)

The County Commissioners govern and legislate Kitsap County. The three members are elected on a countywide basis to four-year terms.

They provide budget and funding for the operations of the various County departments.



Jim Avery, Assessor

Primary role of the Assessor is to establish the assessed valuation of all real and personal property for tax purposes. The values are used to calculate and set levy rates for the various taxing districts. The Assessor's office appraises property both by physical inspection and by market activity.



Walter Washington, Auditor

The Auditor performs a number of functions. The first is to conduct all elections in Kitsap County, whether federal, state or local. The Auditor also records real estate property documents and issues vehicle, vessel, marriage and pet licenses. He prepares and files annual financial statements with the State Auditor and oversees the payroll and accounts payable functions of the County.



Dave Peterson, Clerk

The Clerk serves as the official record keeper for the Superior Court. The Clerk also manages the jury system as well as public defenders and passport services.



Greg Sandstrom, Coroner

The Coroner is responsible for determining the cause and manner of death of all persons within the jurisdictional boundaries of the county. The Coroner's office is instrumental in the investigation as well as the prevention of deaths.



Russell Hauge, Prosecutor

The Prosecutor is charged with trying all felonies and misdemeanors in Kitsap County. He also advises and represents all of the County's elected officials and departments, provides legal advice to all county law enforcement agencies, establishes and enforces child support obligations, and provides witness assistance services.



Steve Boyer, Sheriff

The Sheriff provides a full range of law enforcement services including uniformed police response, correctional facility, work release facility, traffic enforcement and collision investigation, criminal records and civil service processing, property and evidence security, criminal investigations, court security and special enforcement programs.



Meredith Green, CPA, Treasurer

The Treasurer acts as the bank for the County, schools districts, fire districts, water districts, and other local governments. The Treasurer receipts, disburses, invests, and accounts for the funds of each entity within the County's jurisdiction.

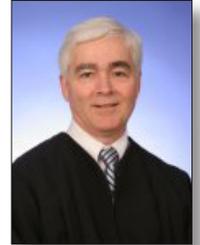


Elected Officials of Kitsap County – The Courts

James Riehl, Jeffrey Jahns, Marilyn Paja and Stephen Holman, District Court Judges

(listed from left to right, top to bottom)

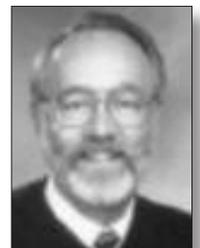
The District Court judges oversee the District Court system which has long been called the “peoples court.” District court has jurisdiction over a wide variety of matters including misdemeanor and gross misdemeanor crimes. The most common criminal charges include domestic violence, assault, theft, DUIs and driving without a license. Traffic infractions include speeding, license tab charges, and equipment violations. District Court also oversees probation services. The Civil Division processes small claims not exceeding \$5,000 and civil actions not exceeding \$75,000.



Jeanette Dalton, Leila Mills, Anna Laurie, Steve Dixon, Jay Roof, Kevin Hull, Jennifer Forbes, Sally Olson, Superior Court Judges

(listed from left to right, top to bottom)

Superior Court has general jurisdiction as authorized by the constitution and laws of the state of Washington. This means there is no limit on the types of civil and criminal cases heard. The court resolves felony matters, civil matters, juvenile matters, domestic relations cases, adoptions, guardianship and probate matters, domestic violence, mental health cases and appeals from courts of limited jurisdiction.



Fiscal Responsibility

The annual budget serves as the foundation of the County's financial planning and control. Fiscal responsibility, which is set in state law (RCW 36.40), establishes the guiding principle of Kitsap's budget process. The law requires the Board of Commissioners to adopt next year's budget by no later than the close of the current year.

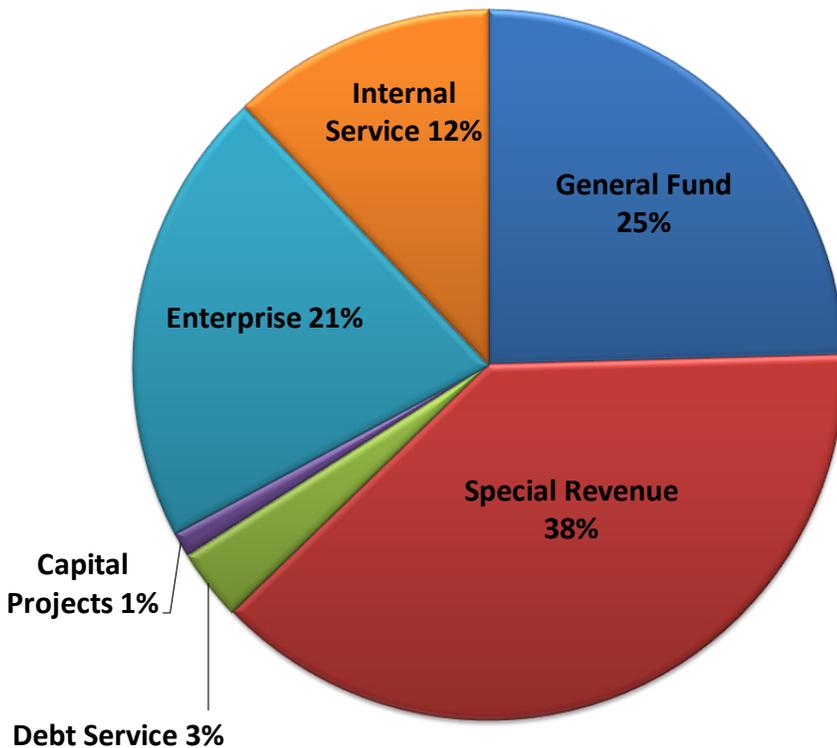
The budget is adopted and systematically monitored on the fund level for Special Revenue, Capital Projects and Debt Service funds, and on a departmental level for the General Fund. Personnel service costs in each fund are controlled by position. The acquisition of capital items is approved on an item-by-item basis in accordance with a long-term capital acquisition plan.

The CAFR includes 'budget-to-actual' comparisons. These comparisons examine budgeted revenue and expenses with actual revenue and expenses.

Kitsap's annual budget is audited every year by the State Auditor's Office to ensure it is compliant with state law and Generally Accepted Accounting Principles (GAAP).

The county's \$320 million annual budget is spread among approximately 110 "funds," which record revenues and pay expenses associated with various programs.

Kitsap County 2012 Adopted Budget All Funds



The pie chart on the left represents the adopted 2012 budget for the County's primary funds.

Special Revenue funds can only be used for specific purposes.

Capital Project funds are used to record and report activity related to capital acquisition and construction projects.

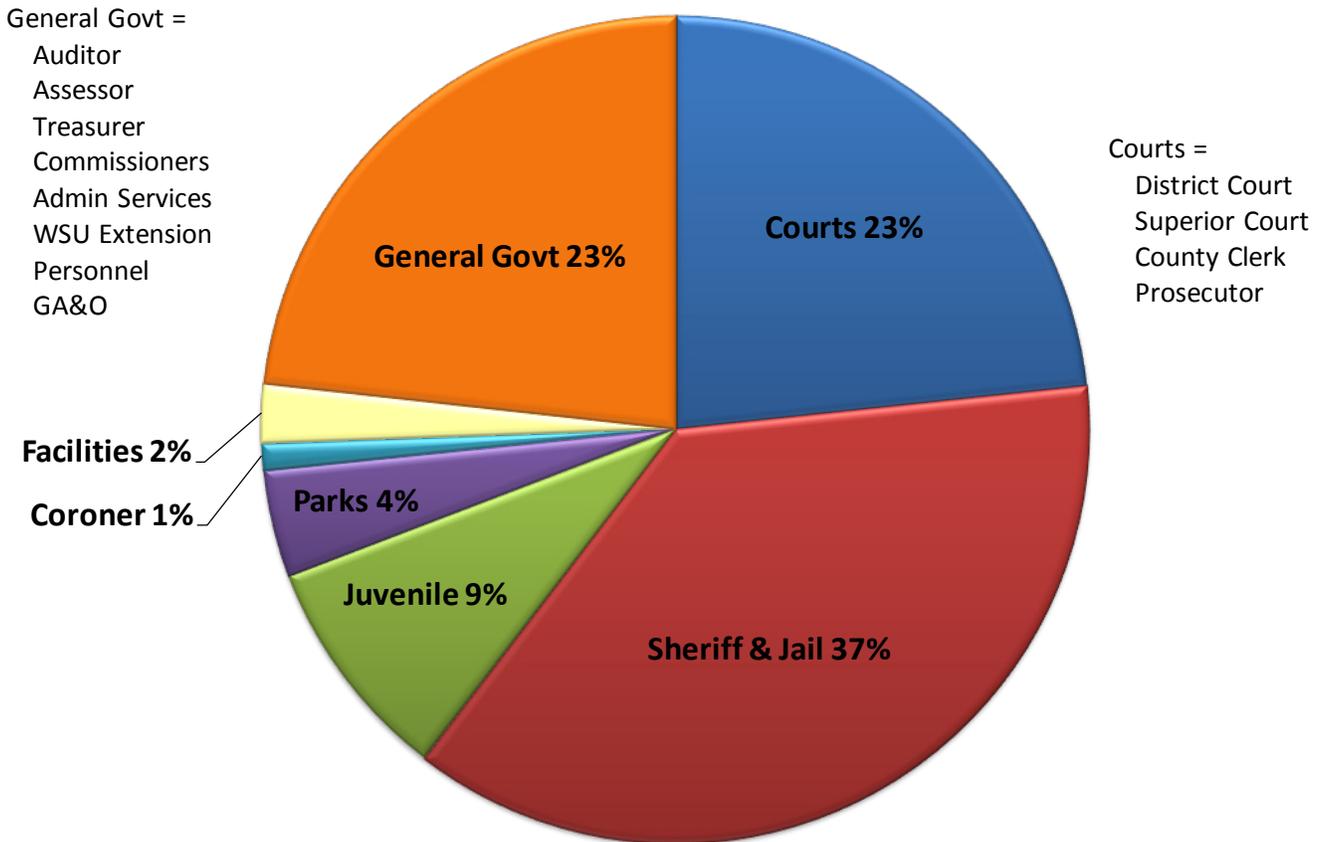
The **Debt Service** funds are used to accumulate resources to pay principle and interest on outstanding debt.

Internal Services includes departments that are primarily billed internally.

Enterprise Services includes departments that are funded by user fees.

See page 10 for a breakdown of the General Fund.

Kitsap County General Fund 2012 Adopted Budget



The **General Fund** accounts for 25 percent of the county budget and is used to record the cost and revenues to provide essential services to county residents such as the Sheriff's Office and Jail, Courts, Parks Department, Coroner's Office, and Facilities.

Budget Comparisons

This table shows the approved budget by Fund Type and Activity for fiscal years (FY) 2012 and 2011.

The annual budget for most of the activities was reduced in FY 2012 compared to FY 2011.

Fund Type	Funds by Activity	Adopted FY2012	Adopted FY 2011
General		\$79.48	\$80.42
Special Revenue	Transportation (Roads)	33.53	36.97
	Emergency Services	10.33	11.29
	Special Revenue Grants	55.39	55.43
	Community Development	6.41	6.63
	Public Safety	5.08	5.67
	Real Estate Excise Tax	4.42	4.81
	Impact Fees	2.51	2.04
	Other Special Revenue	6.82	6.66
Debt Service		17.17	38.15
Capital		4.84	7.35
Enterprise	Solid Waste	17.05	16.75
	Sewer Utilities	39.17	35.33
	Surface water	11.05	12.12
Internal Service		39.40	19.55
	Totals	\$ 332.65	\$ 339.16

Figures are reported in millions of dollars.

Summary of Financial Information

The Condensed Statement of Net Position below includes information on all assets and liabilities of the County, with the difference between assets and liabilities reported as Net position.

Condensed Statement of Net Position

Assets:	Governmental Activities	Business-type Activities	Total 2012	Total 2011
Cash and investments	\$ 105.33	\$ 88.48	\$ 193.81	\$188.07
Receivables, net	3.62	2.58	6.20	6.30
Capital assets, net	399.67	91.63	491.31	496.93
Other assets	30.32	.62	30.94	43.20
Total assets	538.94	183.31	722.25	734.50
Liabilities:				
Short term liabilities	50.18	6.13	56.31	42.08
Long-term liabilities	93.15	58.30	151.45	176.55
Total liabilities	143.33	64.43	207.76	218.63
Deferred inflows:	2.14	-	2.14	-
Net position	\$ 393.47	\$ 118.88	\$ 512.35	\$ 515.86

Figures are reported in millions of dollars.

Statement of Activities

The Condensed Statement of Activities below presents information on the County's revenues and expenses and the change in Net Position. Expenses and program revenues are reported by major functions providing the net cost of all functions of the County.

Condensed Statement of Activities

	Governmental Activities	Business-type Activities	Totals	
			2012	2011
Expenses:				
General government	\$24.93	-	\$24.93	25.55
Judicial services	13.33	-	13.33	13.87
Public safety	49.15	-	49.15	49.37
Physical environment	3.29	-	3.29	3.04
Transportation	38.06	-	38.06	37.02
Health & human services	43.97	-	43.97	43.61
Economic environment	6.75	-	6.75	6.52
Culture & recreation	6.91	-	6.91	6.77
Interest on LT debt	5.39	-	5.39	5.60
Solid waste	-	13.64	13.64	14.37
Sewer utility	-	16.61	16.61	15.76
Surface water	-	7.39	7.39	7.07
Total expenses	191.78	37.64	229.42	228.55
Revenues:				
Program revenues	92.67	38.51	131.18	131.49
General revenues, Special items, Transfers, Extraordinary items	94.14	0.30	94.44	97.37
Total revenues	186.82	38.81	226.25	228.86
Change in net position	(4.96)	1.17	(3.80)	0.31
Beginning net position	398.44	117.43	515.87	515.56
Prior Period Adjustments	-	0.28	0.28	-
Ending net position	\$393.47	\$118.88	\$512.35	\$515.87

Figures are reported in millions of dollars.

Governmental Revenues & Expenditures

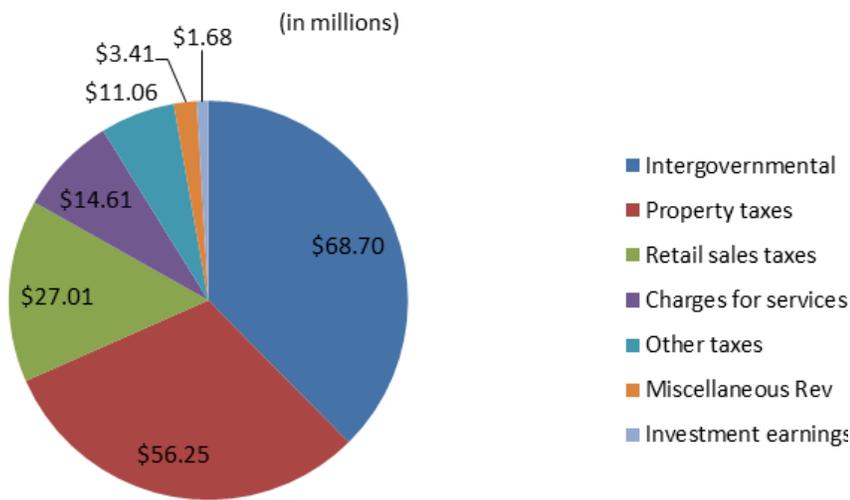
Kitsap County governmental functions and operations are divided into two categories: Governmental and Business Type.

Governmental functions include General Government, Judicial Services, Public Safety, Physical Environment, Transportation, Health & Human Services, Economic Environment, and Culture & Recreation. Business Type functions are those services that are fully supported by user fees.

The fund financial statements in the CAFR present financial information for the county's various funds.

Governmental Funds Revenues

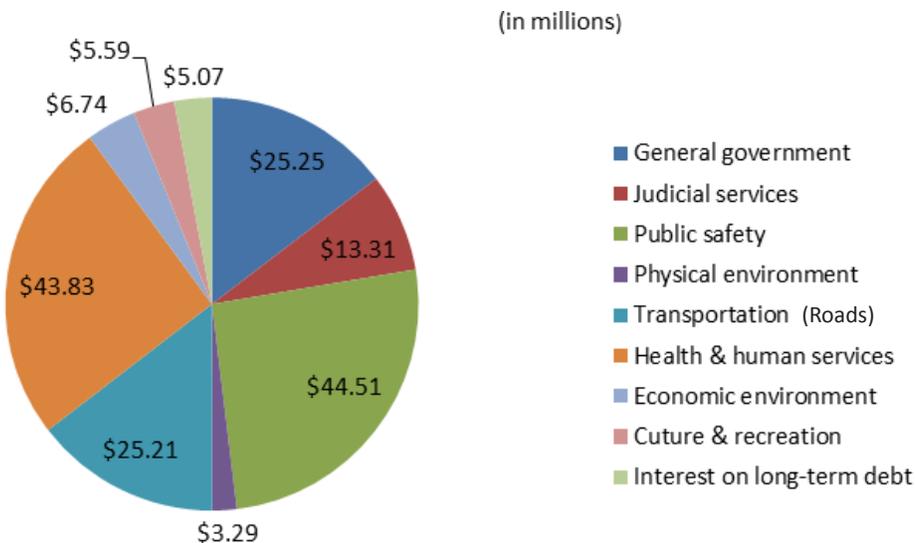
Fiscal Year 2012



Revenues received from, a Federal or State agency are called **Intergovernmental** revenues, for example grants to fund employment training or funding for mental health or substance abuse programs.

Governmental Funds Expenditures

Fiscal Year 2012



Business Type Operations

The Kitsap County Utilities Division provides Solid Waste, Sewer, and Surface and Stormwater services to all the unincorporated areas of the County. These services are paid for entirely by user fees and are known as Business Type operations.

Solid Waste

The Solid Waste Division plans, develops and implements solid waste management programs which conserve natural resources and minimize impacts to land, water, air and climate through the following activities:

- Administers solid waste operations at the Olympic View transfer Station as well as recycling and garbage facilities in Hansville, Silverdale and Olalla and the recycling center in Poulsbo.
- Operates a Household Hazardous Waste collection program.
- Oversees post-closure activities at two closed landfills and participates in the oversight of other closed landfills.
- Administers and monitors waste reduction/recycling programs.
- Provides education to residents, community groups, schoolchildren and businesses concerning proper waste management practices.
- Coordinates litter and illegal dumping cleanup and prevention efforts.

Solid Waste		
	2012	2011
Operating revenues and interest income	\$12.33	\$ 12.51
Grants and contributions	0.55	0.44
Less total expenses	(13.64)	(14.27)
Excess of expenses over revenues	(0.65)	(1.32)
Capital contributions	-	-
Transfers in	-	-
Transfers out	-	-
Depreciation	(0.11)	(0.11)
Net loss after depreciation	\$ (0.76)	\$ (1.43)

Figures are reported in millions of dollars.

Business Type Operations (continued)

Sewer Utility

The Sewer Utility Division provides sanitary sewer service for various unincorporated areas of the County as well as the City of Poulsbo, the Suquamish Tribe and the Bangor and Keyport Naval facilities. The Sewer Utility is supported by user fees and provides the following services:

- Operates wastewater treatment plants in Kingston, Suquamish, Central Kitsap and Manchester.
- Maintains and inspects all pump stations throughout the county.
- Maintains and inspects all county owned gravity and forcemain piping systems.
- Designs, reviews and inspects developer financed sanitary sewer extensions.
- Manages sewer system and provides necessary repairs, replacement and upgrades to the county's sewer infrastructure.
- Provides utility billing services.

Sewer Utility		
	2012	2011
Operating revenues and interest income	\$16.41	\$ 16.32
Grants and contributions	-	-
Less total expenses	(12.46)	(11.76)
Excess of revenues over expenses	3.95	4.56
Capital contributions	1.92	0.78
Transfers out	(0.14)	(0.13)
Depreciation	(4.15)	(4.00)
Net after depreciation	\$ 1.59	\$ 1.21

Figures are reported in millions of dollars.

Business Type Operations (continued)

Surface & Stormwater Management

The Surface & Stormwater Management Division of Kitsap County promotes public health, safety and welfare by establishing a comprehensive, sustainable approach to surface and stormwater management:

- Preserves and restores the natural hydrologic regime.
- Conserves and recharges groundwater resources.
- Reduces pollutants in surface and groundwater.
- Reduces stormwater runoff volume and high flows.
- Encourages sustainable land use practices.
- Continues to refine science-based management of water resources.
- Ensures we utilize public resources effectively and efficiently.

Surface & Stormwater Management		
	2012	2011
Operating revenues and interest income	\$7.49	\$7.52
Grants and contributions	0.49	0.60
Less Total expenses	(6.98)	(6.66)
Excess of revenues over expenses	0.96	1.46
Capital contributions	-	-
Transfers in	-	-
Transfers out	(0.21)	(0.20)
Depreciation	(0.41)	(0.40)
Net after depreciation	\$0.34	\$ 0.86

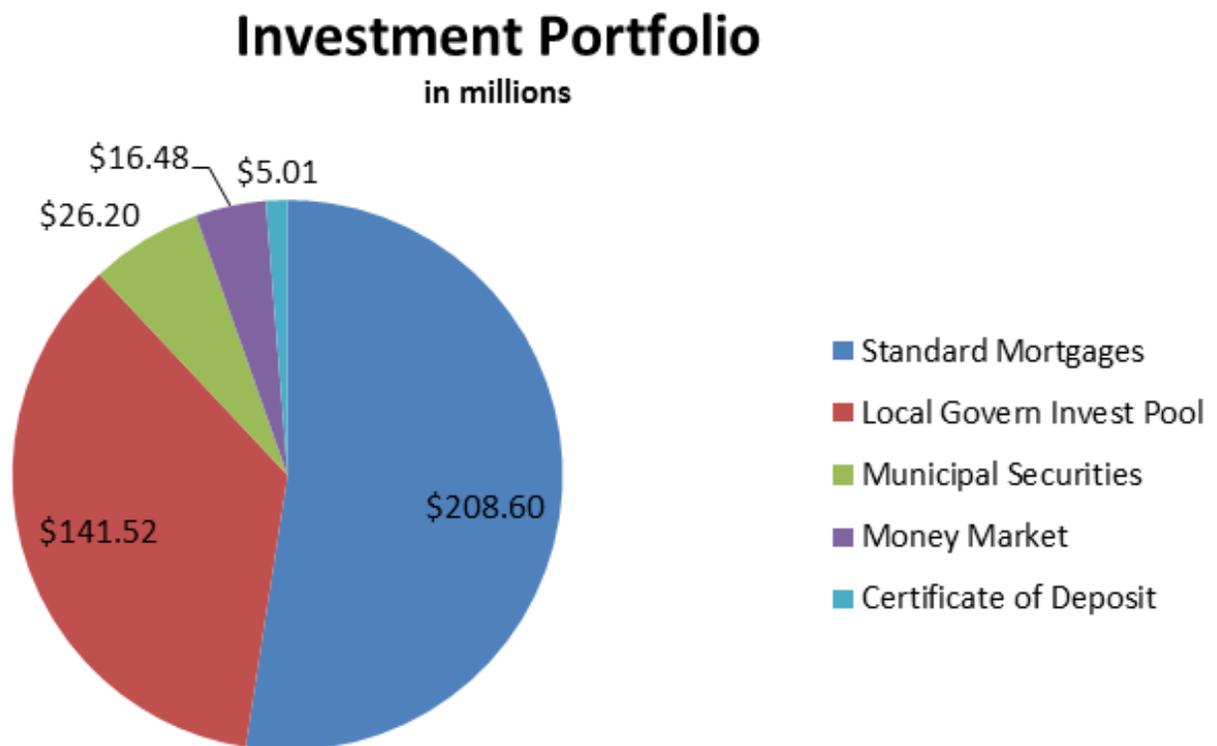
Figures are reported in millions of dollars.

Investment Policy

Kitsap County's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool. This pool is administered by the Washington Public Deposit Protection Commission (PDPC).

As allowed by the state statute, all investments of County funds are issued by the U.S. Government, U.S. agencies, and the Washington State Local Government Investment Pool (LGIP). Other investments include certificates of deposit, municipal obligations or money market deposits with Washington state banks and savings and loan institutions.

At year-end, Kitsap held the following investment balances. These balances include investments held by the county as agent for other local governments:



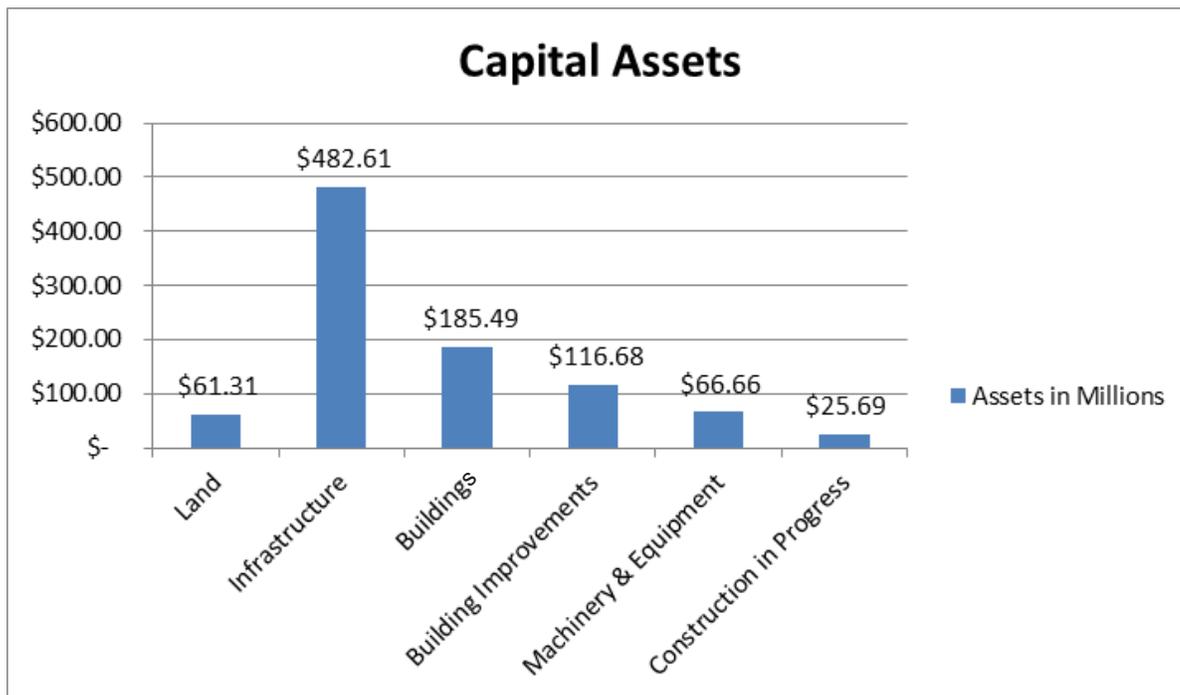
Capital Asset Activity

The County's total investment in capital assets as of Dec. 31, 2012 amounted to \$939 million (\$491 million net of accumulated depreciation). This investment includes land, infrastructure, buildings and improvements, machinery and equipment and construction in progress. Major additions for the year included:

- Headworks sewer project \$15.29 million
- Various infrastructure projects completed \$9.63 million
- Addition of Poplars property \$5.40 million
- Courthouse renovation \$3.21 million

In accounting, **Capital Assets** typically include land, machinery and buildings, and are further defined as assets whose benefits are realized over future fiscal periods.

The decrease in value of a Capital Asset over the course of its useful life is known as depreciation. **Accumulated Depreciation** is the sum of a Capital Asset's depreciation since its acquisition.



Long-Term Liabilities

There are numerous types of long-term liabilities - or debts - the county is required to pay. The County acquires debt as part of its regular operations. These long-term liabilities are paid over a period of time one year or greater.

As of Dec. 31, 2012, the County had \$177.50 million in outstanding debt of which \$26.06 million will mature during fiscal year 2013.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds payable	\$84.64	\$91.96	\$ -	\$ -	\$ 84.64	\$ 91.96
Revenue bonds payable	-	-	48.89	50.94	48.89	50.94
Compensated absences	5.00	5.26	0.59	0.57	5.59	5.82
Notes payable	22.06	24.01	-	-	22.06	24.01
Net OPEB obligation	3.75	3.14	-	-	3.75	3.14
Other liabilities	0.43	0.47	12.14	10.23	12.57	10.70
Total	\$115.82	\$ 124.85	\$61.62	\$61.74	\$177.50	\$186.58

Figures are reported in millions of dollars.

Property Tax Information

The Kitsap County Assessor's Office establishes the assessed value of all personal property for tax purposes. The values are used to calculate and set levy rates for the various taxing districts. The Assessor's Office appraises property both by physical inspection and by market activity.

Kitsap County Property Values

Fiscal Year	Taxable Value	Tax Collections
2003	16,171.49	45.92
2004	17,106.48	45.01
2005	19,081.91	46.19
2006	23,043.10	48.14
2007	28,291.99	50.81
2008	32,338.20	52.29
2009	32,291.65	53.50
2010	29,918.06	54.04
2011	28,151.15	54.60
2012	26,851.72	54.76

Figures are reported in millions of dollars.

Kitsap County's Largest Taxpayers

Organization	Taxable Property Values
Puget Sound Energy	\$117.67
PPR Kitsap Mall LLC	78.86
Qwest Corporation	53.48
Walmart	41.02
ABS WA O LLC (Albertsons)	37.80
Fred Meyer	37.02
PK 1 Silverdale Shopping Center LLC	33.07
Fairgrounds Road LLC	31.01
Tim Ryan Properties	28.98
Cascade Natural Gas	28.12
Total	\$487.04

Figures are reported in millions of dollars.